

# Policy Ideas in the History of Economic Thought

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Fall, 2010

V31.0208.001

## General Course Description

Economic policy has been important since before the beginning of systematic economic thought. This course will examine a few selected policy issues drawn from classical to present-day economic thought. These may vary from year to year. The emphasis will be on those topics that are of continuing present-day interest. This year some of the thinkers are Adam Smith, Jeremy Bentham, John Stuart Mill, Arthur C. Pigou, Ludwig von Mises, John Maynard Keynes, and Friedrich Hayek. The topics will range widely including: the protection of domestic industry, Say's Law and macroeconomic policy, use of taxes to deal with external effects, property rights, and economic calculation without markets

*Prerequisites:* Both Principles I and II.

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Most of the readings are available through the indicated links; others have been uploaded to Blackboard. When a reading is followed by **(H)** it will be distributed in class.

If a reading is followed by an **[R]** then a report is due as indicated on the Report Assignment Sheet.

## I. The Classical Heritage

### *(a) The Legal Framework of Economic Order*

[Jean-Baptiste Say, "Of the Right of Property," A Treatise on Political Economy,](#)  
Book I, Chapt. XIV.

David Hume, "Justice and Property," *A Treatise on Human Nature*, (Oxford edition), pp. 484-88, 494-98, 514, 526. (Blackboard)

[Adam Smith, \*The Theory of Moral Sentiments\*](#), Part II, Sec. II, Chap. III, Paragraphs II.II.15-II.II.18; II.II.20. Begins "It is thus that man..."

[\\_\\_\\_\\_\\_](#), [The Theory of Moral Sentiments](#), Part III, Sec. I, Chap. VI, Paragraphs II.1.122-123. Begins "There is, however..."

### **(b) Economic Liberalism**

Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Various Excerpts. (Blackboard)

David Ricardo, "On Foreign Trade," *Principles of Political Economy and Taxation*, pp. 128, 132-7, 140-2. (Blackboard)

[Frederic Bastiat, "What is Seen and What is Unseen,"](#) *Selected Essays on Political Economy*, sec. 1-8 (omit sec. 6).

Thomas Sowell, "Social Philosophy," *Classical Economics Reconsidered*, Chap. 1 (Blackboard)

## **II. Say's Law of Markets**

### ***(a) The Classical Understanding***

[Jean-Baptiste Say, "Of the Demand or Market for Products,"](#) *A Treatise on Political Economy*, Book I, Chap. XV.

[John Stuart Mill, "The Influence of Consumption on Production,"](#) Chap. II, *Essays on Some Unsettled Questions of Political Economy*, paragraphs II.69 – II.78. [R]

Edmund Silberner, "John-Baptiste Say," *The Problem of War in Nineteenth-Century Economic Thought*, pp. 69-91. (Blackboard)

### ***(b) Keynes's Interpretation and Criticism***

[John Maynard Keynes, \*The General Theory of Employment, Interest and Money\*](#), Chap. 2, Sec. VI.

[Steven Kates, "On the True Meaning of Say's Law,"](#) *Eastern Economic Journal*, Vol. 23, Spring, 1997, pp. 191-202.

Steven Kates, *Say's Law and the Keynesian Revolution: How Macroeconomic Theory Lost Its Way*, pp. 74-78; 114-121; 223-225. (Blackboard)

### III. The Great Depression

Lawrence H. White, "The Roaring Twenties and the Austrian Business Cycle Theory," *The Clash of Economic Ideas*, Chap. 3 (ms, forthcoming book). **(H)**

\_\_\_\_\_, "The Great Depression and Keynes's General Theory," *The Clash of Economic Ideas*, Chap. 4 (ms. forthcoming book). **(H)**

[John Maynard Keynes, "The Social Philosophy Towards Which The General Theory Might Lead,"](#) *General Theory of Employment, Interest and Money*, Chap. 24. **[R]**

### IV. The End of Laissez-Faire?

#### *(a) The Meaning of Laissez-Faire*

William Graham Sumner, "Laissez-Faire," *Essays of William Graham Sumner* (ed. Keller and Davie), vol. 2, pp. 468-77. (Blackboard)

\_\_\_\_\_, "[State Interference](#)," *Essays of William Graham Sumner* (ed. Keller and Davie), vol. 2, pp. 136-149.

#### *(b) Decline and Reaction*

[John Stuart Mill, "Of the Grounds and Limits of the Laissez-Faire or Non-Interference Principle,"](#) *Principles of Political Economy*, Book V, Chap. 11.

[John Neville Keynes, "On Political Economy and Laissez Faire,"](#) *The Scope and Method of Political Economy*, pp. 67-74.

[Herbert Spencer, "The Coming Slavery,"](#) in *The Man versus The State*

[John Maynard Keynes, "The End of Laissez-Faire,"](#) *Essays in Persuasion*.

\_\_\_\_\_, "Am I a Liberal?" *Essays in Persuasion*. (Blackboard)

[Ludwig von Mises, "Liberal Economic Policy,"](#) *Liberalism*, Chap. 2.

## V. Economic Calculation Under Socialism

### *(a) Decentralization of Knowledge in Society*

David Ramsey Steele, "Division of Knowledge," *From Marx to Mises*, Chap. 10, pp. 229-37, 243-248. (Blackboard) **[R]**

[F. A. Hayek, "The Use of Knowledge in Society,"](#) *American Economic Review*, September 1945, pp. 519-530.

### *(b) Economic Calculation Without Market Prices*

Peter J. Boettke, "Theoretical Problems of Socialism," *Why Perestroika Failed*. (Blackboard) **[R]**

David Ramsey Steele, "The Discovery of the Economic Calculation Problem," *From Marx to Mises*, Chap.4, pp. 88-93. (Blackboard)

Lawrence H. White, "The Bolshevik Revolution and the Socialist Calculation Debate," *The Clash of Economic Ideas*, Chap. 2, (ms. forthcoming book). **(H)**

## VI. Arthur Pigou and Pigovian Taxes

Nahid Aslanbeigui, Introduction to Transaction Edition of A. C. Pigou, *Economics of Welfare*, pp. xxxviii – xlii; liv – lvii. (Blackboard)

[A. C. Pigou, "Divergences between Marginal Social Net Product and Marginal Private Net Product,"](#) *The Economics of Welfare*, Part II, Chap. IX, sections 1, 3, 10, 13.

[Ronald H. Coase, "The Problem of Social Cost,"](#) *Journal of Law and Economics*, October 1960.

[James M. Buchanan, "Private and Social Cost,"](#) *Cost and Choice*, Chap. 5.

## VII. Political and Legal Consequences of Economic Planning

Lawrence H. White, "The Second World War and Hayek's *Road to Serfdom*," *Clash of Economic Ideas*, Chap. 6 (ms. forthcoming book). **(H)**

F.A. Hayek, "Genius for Compromise," *The Spectator* (UK), Jan. 26, 1945. (Blackboard)

F. A. Hayek, "Planning and Democracy" and "Planning and the Rule of Law," *The Road to Serfdom* (1944), Chap. 5, 6, pp. 100-23. (Blackboard)

[Bruce Caldwell, "The Publication History of \*The Road to Serfdom\*,"](#) Excerpted from the Introduction to F.A. Hayek, *The Road to Serfdom*, definitive edition (U of Chicago Press, 2007).